

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LAUREL COUNTY SHERIFF

For The Year Ended
December 31, 2005

The Auditor of Public Accounts has completed the Laurel County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$94,752 from the prior year, resulting in excess fees of \$150,905 as of December 31, 2005. Revenues increased by \$197,841 from the prior year and expenditures increased by \$103,089.

Debt Obligations:

Capital lease principal agreements totaled \$181,654 as of December 31, 2005. Future principal and interest payments of \$191,790 are needed to meet these obligations.

Report Comments:

- The Sheriff Should Not Have A Deficit In His Official Bank Account For 2005 Fees
- The Sheriff Should Prepare And Submit Quarterly Financial Reports To The Kentucky Governor's Office For Local Development On A Timely Basis
- The Sheriff Should Maintain Proper Documentation For All Expenditures And Avoid Paying Late Fees And Interest From His Official Fee Account
- The Sheriff's Office Should Reimburse The Fiscal Court For Funds Received For Employer's Share Of Retirement
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Maintain Time Records On All Employees
- The Sheriff Should Eliminate 2004 Fee Account Deficit of \$39,684 And Pay \$39,684 Due The Fiscal Court For 2004 Excess Fees
- The Sheriff Should Eliminate 2003 Fee Account Deficit of \$11,100 And Pay \$11,100 Due The Fiscal Court For 2003 Excess Fees
- The Sheriff Should Strengthen Internal Controls Over The Bank Reconciliation Process
- The Sheriff Should Implement Payroll Procedures To Ensure Payroll Records More Accurately Reconcile To The Appropriate Reports And Billings
- The Sheriff Should Review Health Insurance Billings To Ensure Proper Premiums Are Paid On Appropriate Employees
- The Sheriff Should Strengthen Internal Controls Over Employee Time Recordkeeping

Deposits:

As of December 31, 2005, the Sheriff's deposits were insured and collateralized by bank securities or bonds; however, on October 25, 2005, the Sheriff's deposits were uninsured and uncollateralized by bank securities or bonds by \$1,306,628.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS	10
COMMENTS AND RECOMMENDATIONS	13
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	21



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Laurel County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Not Have A Deficit In His Official Bank Account For 2005 Fees
- The Sheriff Should Prepare And Submit Quarterly Financial Reports To The Kentucky Governor's Office For Local Development On A Timely Basis
- The Sheriff Should Maintain Proper Documentation For All Expenditures And Avoid Paying Late Fees And Interest From His Official Fee Account
- The Sheriff's Office Should Reimburse The Fiscal Court For Funds Received For Employer's Share Of Retirement
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Maintain Time Records On All Employees
- The Sheriff Should Eliminate 2004 Fee Account Deficit of \$39,684 And Pay \$39,684 Due The Fiscal Court For 2004 Excess Fees
- The Sheriff Should Eliminate 2003 Fee Account Deficit of \$11,100 And Pay \$11,100 Due The Fiscal Court For 2003 Excess Fees
- The Sheriff Should Strengthen Internal Controls Over The Bank Reconciliation Process
- The Sheriff Should Implement Payroll Procedures To Ensure Payroll Records More Accurately Reconcile To The Appropriate Reports And Billings
- The Sheriff Should Review Health Insurance Billings To Ensure Proper Premiums Are Paid On Appropriate Employees
- The Sheriff Should Strengthen Internal Controls Over Employee Time Recordkeeping

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Laurel County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 30, 2006

LAUREL COUNTY
 GENE HOLLON, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	208,117
State - Kentucky Law Enforcement Foundation Program Fund			87,178
State Fees For Services:			
Finance and Administration Cabinet	\$	55,732	
Cabinet For Human Resources		31,652	
Sheriff's Security Service		53,384	
Kentucky State Police		<u>10,940</u>	151,708
Circuit Court Clerk:			
Fines and Fees Collected			3,463
Fiscal Court			661,100
County Clerk - Delinquent Taxes			11,106
Commission On Taxes Collected			610,297
Fees Collected For Services:			
Auto Inspections		24,255	
Accident and Police Reports		2,837	
Serving Papers		103,447	
Carrying Concealed Deadly Weapon Permits		<u>26,153</u>	156,692
Other:			
Miscellaneous			13,448
Advertising Fees			5,591
Add-on Fees			100,013
Overtime Reimbursement			9,799
Execution			5,295
Helicopter			25,000
Insurance Claims			10,273
Interest Earned			7,659
Borrowed Money:			
Bank Notes			<u>215,000</u>
Total Revenues			<u>2,281,739</u>

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 1,164,889

Employee Benefits-

Employer's Share Social Security \$ 84,721

Employer's Share Hazardous Duty Retirement 41,321

Employer Paid Health Insurance 181,654

Unemployment Insurance 4,935 312,631

Contracted Services-

Advertising 65

Accounting Fees 2,304

Medical 65

Criminal Check 30

Serving Papers - Other Counties 180 2,644

Materials and Supplies-

Office Materials and Supplies 32,493

Copier 950

Postage 9,011

Mailing System 1,208

Uniforms 8,700 52,362

Auto Expense-

Gasoline 97,764

Auto Body Repair 23,501

Vehicle Maintenance and Repairs 36,733 157,998

Other Charges-

Conventions and Travel 5,230

Dues 100

Reimbursements 1,016

Bond 3,060

Carrying Concealed Deadly Weapon Permits 20,095

Miscellaneous 1,285

Aviation 2,493

Jury Expense 267

Communication 40,703

Bank Charges 4,290

Executions 5,127 83,666

Capital Outlay-

Equipment Purchase 2,394

New Vehicles 17,525

Vehicle Lease Purchases 57,932 77,851

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Debt Service:

Bank Notes	\$	215,000	
Interest		<u>7,885</u>	\$ <u>222,885</u>

Total Expenditures			2,074,926
--------------------	--	--	-----------

Less: Disallowed Expenditures

Bank Charges	4,290	
Interest on Bank Notes	7,885	
Late Charges	2,853	
Employer Paid Health Insurance	4,411	
Expenditures Without Proper Documentation	<u>9,290</u>	<u>28,729</u>

Total Allowable Expenditures		<u>2,046,197</u>
------------------------------	--	------------------

Net Revenues		235,542
--------------	--	---------

Less: Statutory Maximum		<u>81,443</u>
-------------------------	--	---------------

Excess Fees		154,099
-------------	--	---------

Less: Training Incentive Benefit		<u>3,194</u>
----------------------------------	--	--------------

Excess Fees Due County for 2005*		<u><u>\$ 150,905</u></u>
----------------------------------	--	--------------------------

*Note: The Sheriff presented checks to the County Treasurer for \$63,889 and \$56,529 on June 22, 2006 and July 19, 2006 respectively, as payment on the excess fees due the County for 2005.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met as the Sheriff did not have a written agreement with the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were adequately covered by FDIC insurance or pledged securities but no properly executed collateral security agreement, and as of October 25, 2005, \$1,306,628 of the Sheriff's bank balance of \$1,417,801 was exposed to custodial credit risk as follows:

- Uninsured and Uncollateralized - \$1,306,628

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. Helicopter Account

As of December 31, 2004, the Sheriff's Helicopter Account had a balance of \$166. The account earned interest income of \$1 during 2005. Since the Helicopter Account was a dormant account, the Sheriff transferred the balance of \$167 to the 2005 Fee Account on November 7, 2005, closing out the account.

Note 5. Drug Seizure Account

As of December 31, 2004, the Sheriff had a balance of \$9,676 in the Drug Seizure Account. During 2005, the Sheriff deposited \$41,475 in seized monies and earned interest of \$122. The seized funds are held by the Sheriff pending adjudication by the courts. The Sheriff disbursed \$28,478 in accordance with court orders during 2005, leaving a balance of \$22,795 as of December 31, 2005. Since these monies are being held by the Sheriff pending court adjudication, they are not included as part of excess fees.

Note 6. Undercover Drug and Alcohol Account

As of December 31, 2004, the Sheriff had a balance of \$623 in the Undercover Drug and Alcohol Account. During 2005, the Sheriff received \$191,631, which represented the Laurel County Sheriff's Office equitable sharing in the assets seized. The Sheriff expended \$78,846, leaving an unexpended balance of \$113,408, as of December 31, 2005. Of the \$113,408 unexpended balance, \$9,200 is cash on hand held by the Sheriff to be used in investigative drug cases. These funds are to be used to enhance law enforcement activities and not supplant the Sheriff's normal operating budget; therefore, they are not included as a part of excess fees.

Note 7. Federal Seizure Account

During 2005, the Sheriff received \$6,699 from the U.S. Marshall as the Laurel County Sheriff's share of assets seized as a result of joint investigations with other local, state, and federal agencies. The account earned interest of \$12. The Sheriff expended \$10 during the year, resulting in an unexpended balance of \$6,701. These funds are used to enhance law enforcement activities and not supplant the Sheriff's normal operating budget; therefore, they are not included as a part of excess fees.

Note 8. Local Law Enforcement Block Grants

- A. As of December 31, 2004, the Sheriff had an unexpended Local Law Enforcement Block Grant balance of \$1,856 on Grant #LLEB-528-03. This grant was to be used for equipment. During 2005, the account earned interest of \$41. Funds totaling \$1,897 were expended on allowable grant activities during the year, leaving a \$0 balance as of December 31, 2005.
- B. As of December 31, 2004, the Sheriff had an unexpended Local Law Enforcement Block Grant balance of \$5,600 on Grant #LLEB-605-04. This grant was to be used for equipment. During 2005, the account earned interest of \$63. Funds totaling \$3,505 were expended on allowable grant activities during the year, leaving an unexpended grant balance of \$2,158 as of December 31, 2005. These funds are restricted for allowable grant activities and the Sheriff has until August 31, 2006 to expend the grant; therefore, these funds are not included as a part of excess fees.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 9. Leases

- A. On January 31, 2003, the Laurel County Sheriff's Department entered into a 5-year leasing agreement with Farmers Bank & Capital Trust Co., with payments being made to Leasing One Corporation, for the purchase of five Sheriff's cruisers and equipment. Payments are due annually by February 15. The total remaining principal balance of the agreement was \$81,185 as of December 31, 2005.
- B. On February 27, 2004, the Laurel County Fiscal Court entered into a 5-year leasing agreement with Farmers Bank & Capital Trust Co., with payments being made to Leasing One Corporation, for the purchase of five Sheriff's cruisers and equipment; however, the Laurel County Sheriff's Office is making the payments. Payments are due annually by February 15. The total remaining principal balance of the agreement was \$100,469 as of December 31, 2005.

Note 10. Related Party Transactions

During the year ended December 31, 2005, the Laurel County Sheriff's Office paid London Quick Lube and All-Pro Detail, \$4,953 and \$140, respectively, for vehicle maintenance. An employee of the Sheriff's Office owns both of these businesses. Because of the nature of the relationship between the businesses and the employee, the transactions are considered related party transactions.

LAUREL COUNTY
GENE HOLLON, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2005

Assets

Cash in Bank	\$ 282,263
Receivables	<u>315,042</u>
Total Assets	<u>597,305</u>

Liabilities

Paid Obligations:

Outstanding Checks	\$ 8,997
Liabilities Paid After December 31, 2005	<u>467,890</u>

Total Paid Obligations 476,887

Unpaid Obligations:

Laurel County Treasurer- Excess Fees - 2005	<u>150,905</u>
--	----------------

Total Liabilities 627,792

Total Fund Deficit as of December 31, 2005 \$ (30,487)

COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Not Have A Deficit In His Official Bank Account For 2005 Fees

As of December 31, 2005, the Sheriff had a deficit of \$30,487 in his official bank account for 2005 Fees. This deficit resulted from the following:

Excess 2005 Sheriff's Salary	\$ 1,258
Disallowed Expenditures	28,729
Undeposited County Payments	<u>500</u>
Total Deficit	<u><u>\$ 30,487</u></u>

We recommend the Sheriff eliminate this deficit by depositing personal funds in his official bank account for 2005 Fees.

Sheriff's Response: Understand and are working with Fiscal Court to eliminate this deficit.

The Sheriff Should Prepare And Submit Quarterly Financial Reports To The Kentucky Governor's Office For Local Development On A Timely Basis

The Kentucky Governor's Office For Local Development (GOLD) Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual require all sheriffs to prepare quarterly financial reports and submit the reports "by the 30th day following the close of each quarter" to GOLD, Office of the Governor, Commonwealth of Kentucky. The Sheriff's office did not prepare or submit quarterly financial reports to GOLD on a timely basis for 2005. The Sheriff should comply with GOLD requirements to prepare and submit quarterly financial reports for each quarter.

Sheriff's Response: Will comply.

The Sheriff Should Maintain Proper Documentation For All Expenditures And Avoid Paying Late Fees And Interest From His Official Fee Account

Per Technical Audit Bulletin #93-001, the following are subject to an audit comment relating to Ky Const. S 173; KRS 61.190 (repealed and replaced with KRS 522.050) and 132.601(1); and Funk v. Milliken, 317 S.W.2d 499(KY 1958):

- Penalties for late payments
- Expenditures without proper and accurate documentation
- Interest incurred on a personal loan by a sheriff who chooses not to participate in the Sheriff's Advancement Programs

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Maintain Proper Documentation For All Expenditures And Avoid Paying Late Fees And Interest From His Official Fee Account (Continued)

During our testing of expenditures, we noted the following:

- \$2,853 in late payment charges was paid on one invoice that was tested. This charge is disallowed.
- Various expenditures totaling \$9,290 were charged to a MasterCard credit card. The only documentation available on these MasterCard charges were the monthly MasterCard statements, which are not considered sufficient supporting documentation. Therefore, since proper documentation (i.e. receipts) was not available for these purchases, these expenditures are disallowed.
- \$7,885 in interest was paid on bank loans. Since the Sheriff chose not to participate in the Sheriff's State Advancements Programs, this interest is disallowed.

We recommend the Sheriff or a designated employee other than the employee preparing the checks, verify invoices are accurate and paid timely in order to avoid late charges, as well as examine the checks for proper supporting documentation. Additionally, we recommend dual signatures on checks, with one being the Sheriff.

We also remind the Sheriff of KRS 64.140 which allows sheriffs to apply to the Finance and Administration Cabinet for an interest-free advancement to defray necessary official expenses, including salaries, with repayment of the advancement being made to the Finance and Administration Cabinet at the end of the year from the fees and commissions collected by the Sheriff. We recommend the Sheriff participate in the State Advancement Program as an alternative to bank loans, thereby avoiding interest expense on the loans.

Sheriff's Response: Understand. All expenses were legitimate and we are still trying to find documentation.

The Sheriff's Office Should Reimburse The Fiscal Court For Funds Received For Employer's Share Of Retirement

During 2005, the Sheriff's Office received reimbursement for the employer's share of retirement from the following programs:

Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$ 16,621
High Intensity Drug Trafficking Area (HIDTA)	9,482
Unlawful Narcotics Investigation, Treatment, and Education (UNITE)	13,443
Community Oriented Policing Services (COPS) Grant	<u>1,775</u>
Total	<u>\$ 41,321</u>

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff's Office Should Reimburse The Fiscal Court For Funds Received For Employer's Share Of Retirement (Continued)

However, the Laurel County Fiscal Court on behalf of the Sheriff's Office paid the employer's share of retirement. While this fringe benefit is an allowable reimbursable cost of these programs, the funds received by the Sheriff's Office as reimbursement for employer's share of retirement should be passed through to the Laurel County Fiscal Court in order to more accurately reflect matching of program funds received with actual expenditures. On June 21, 2006, the Sheriff's Office subsequently reimbursed the Laurel County Fiscal Court \$41,321, which is reflected as an expenditure on the "Statement of Revenues, Expenditures, and Excess Fees." In the future, since the expenditure for employer's share of retirement is actually incurred by the Laurel County Fiscal Court, we recommend the Sheriff's Office reimburse the Laurel County Fiscal Court for these costs as funds are received from KLEFPF, HIDTA, UNITE, and COPS programs.

Sheriff's Response: This has been complied with.

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On October 25, 2005, \$1,306,628 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: Has been done.

The Sheriff Should Maintain Time Records On All Employees

During our testing of payroll, we noted time sheets or time cards were not on file for all employees. We recommend time records be maintained for all employees, including hours worked each day and each week by each employee, as required by KRS 337.320.

Sheriff's Response: All supervisors are aware and will comply.

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Eliminate 2004 Fee Account Deficit of \$39,684 And Pay \$39,684 Due The Fiscal Court For 2004 Excess Fees

As reported in the prior year audit, the Sheriff had a deficit of \$39,884 in his official bank account for 2004 fees. This deficit resulted from the following:

Excess 2004 Sheriff's Salary	\$ 1,384
Disallowed Expenditures	36,502
Undeposited Receipts	1,798
Total Deficit	<u>\$ 39,684</u>

As a result of the excess Sheriff's salary, disallowed expenditures, and undeposited receipts, an additional \$39,684 in excess fees was due the fiscal court for 2004. We recommend the Sheriff eliminate this deficit by depositing personal funds of \$39,684 in his official bank account for 2004 fees and then pay the county treasurer \$39,684 due the fiscal court for 2004 excess fees.

Sheriff's Response: We are working with Fiscal Court to eliminate this deficit.

The Sheriff Should Eliminate 2003 Fee Account Deficit of \$11,100 And Pay \$11,100 Due The Fiscal Court For 2003 Excess Fees

As reported in the prior year audit, the Sheriff had a deficit of \$11,100 in his official bank account for 2003 fees due to disallowed interest on bank loans. As a result of the disallowed interest on bank loans, an additional \$11,100 in excess fees was due for 2003. We recommend the Sheriff eliminate this deficit by depositing personal funds of \$11,100 in his official bank account for 2003 fees and then pay the county treasurer \$11,100 due the fiscal court for 2003 excess fees.

Sheriff's Response: We are working with Fiscal Court to eliminate this deficit.

INTERNAL CONTROL - REPORTABLE CONDITIONS

The Sheriff Should Strengthen Internal Controls Over The Bank Reconciliation Process

The Sheriff's official bank account statements for his 2005 Fee Account were not reconciled on a timely basis. As a result, his official bank account was charged \$4,290 for insufficient fund and/or overdraft bank charges. In order to strengthen internal controls over the bank reconciliation process, we recommend the Sheriff's designated employee reconcile his official bank account statements monthly and the Sheriff review the completed bank reconciliations. This review can be documented by the Sheriff initialing the bank reconciliation. By reconciling the bank statements on a timely basis, appropriate actions could have been taken to avoid the insufficient fund and overdraft charges on the 2005 Fee Account. These bank charges of \$4,290 are disallowed.

Sheriff's Response: Have discussed this with Fee Account Managers to keep this from happening again.

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS (Continued)

The Sheriff Should Implement Payroll Procedures To Ensure Payroll Records More Accurately Reconcile To The Appropriate Reports And Billings

While an outside accounting firm prepares payroll for the Sheriff's Office, the firm only prepares withholding remittances for Federal Taxes, FICA (employee and employer's share), employees' share of retirement, and child support. All other employee withholdings are prepared and remitted by the Sheriff's Office. During 2005, billings from the Commonwealth Credit Union were not reconciled to the payroll records prepared by the outside accounting firm. As a result, in testing payroll, we noted discrepancies between the amounts paid and the amounts withheld on employees' wages for credit union. During 2005, 31 payments were made to the Commonwealth Credit Union, when there should have been only 26 payments since the Sheriff's Office payroll is prepared every two weeks. As a result, an additional \$5,526 over the amounts withheld on the Sheriff and his employees' payroll was contributed to the Sheriff and his employees' credit union accounts. The additional remittances made to the Sheriff's credit union account resulted in the Sheriff exceeding his statutory maximum salary established in accordance with KRS 64.5275 by \$1,258. In order to correct the excess contributed to the other employees' accounts during 2005, we recommend remittances to the Commonwealth Credit Union be reduced in 2006 until the excess contributed to each employee's account is eliminated. In addition, in order to strengthen internal controls as well as to avoid errors in remittances, we recommend the Sheriff's office negotiate with the outside accounting firm to prepare all withholding remittances in accordance with their payroll reports. Alternatively, if these services cannot be negotiated, we recommend the Sheriff or a designated employee compare billings to the amounts withheld per the payroll reports prepared by the outside accounting firm and that payments be made in accordance with those reports. This comparison should be documented by the Sheriff or designated employee initialing the appropriate billing statements. Furthermore we recommend payments be made timely and coincide with payroll dates.

Sheriff's Response: Have met with payroll company to rectify this problem.

The Sheriff Should Review Health Insurance Billings To Ensure Proper Premiums Are Paid On Appropriate Employees

Based on our test of health insurance billings, \$4,411 of health insurance premiums were paid on employees that had been terminated or had left employment. These premiums have been disallowed. In addition, we noted monthly premiums were paid on new employees for two-three months prior to any withholdings being made on the employee's wages. In order to strengthen internal controls and ensure proper premiums are paid on appropriate employees, we recommend the Sheriff or a designated employee review insurance billing statements prior to payment of the premiums. In addition, comparisons should be made to the payroll reports prepared by the outside accounting firm to ensure the proper amount is being withheld on employees' wages. This review and comparison should be documented by the Sheriff or designated employee initialing the health insurance billings.

Sheriff's Response: Has been done. All bills will be itemized each month.

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2005
 (Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS (Continued)

The Sheriff Should Strengthen Internal Controls Over Employee Time Recordkeeping

We noted in our testing of payroll, instances of time sheets or time cards not being signed by the employee and/or supervisor. We also noted that changes on time cards were not initialed/approved by a supervisor. In order to strengthen internal controls in the area of employee time recordkeeping, we recommend all time sheets or time cards be signed by the employee and the next appropriate level of supervision, noting approval of hours worked or leave time taken. We also recommend any handwritten times on time cards and any other changes on time sheets be reviewed and initialed by the supervisor, noting approval of the changes.

In addition, we noted instances of time sheets not agreeing with the hours paid. In order to ensure the proper amount is paid, we recommend the Sheriff or a designated employee, compare the payroll sheets prepared by the CPA firm to the appropriate time records, substantiating hours worked, including overtime. Any discrepancies between time records and hours paid should be resolved and properly documented.

Sheriff's Response: This has been rectified. Will not happen in the future.

PRIOR YEAR:

In the prior year audit report, the following comments and recommendations were reported and not corrected:

- The Sheriff Should Not Have A Deficit Of \$39,684 In His Official Bank Account For 2004 Fees And Should Pay \$39,684 Due The Fiscal Court For Calendar Year 2004 Excess Fees
- The Sheriff Should Prepare And Submit Quarterly Financial Reports To Kentucky Governor's Office For Local Development On A Timely Basis
- The Sheriff Should Maintain Proper Documentation For All Expenditures And Avoid Paying Late Fees, And Interest From His Official Fee Account
- The Sheriff Should Reconcile Official Bank Account Monthly
- The Sheriff's Office Should Reimburse The Fiscal Court For Funds Received For Employer's Share Of Retirement
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Eliminate 2003 Fee Account Deficit of \$11,100 And Pay \$11,100 Due The Fiscal Court For Calendar Year 2003 Excess Fees
- The Sheriff Should Implement Payroll Procedures To Ensure Payroll Records More Accurately Reconcile To The Appropriate Reports and Billings
- The Sheriff Should Review Health Insurance Billings To Ensure Proper Premiums Are Paid On Appropriate Employees
- The Sheriff Should Strengthen Internal Controls Over Employee Time Recordkeeping

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Laurel County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated June 30, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Strengthen Internal Controls Over The Bank Reconciliation Process
- The Sheriff Should Implement Payroll Procedures To Ensure Payroll Records More Accurately Reconcile To The Appropriate Reports And Billings
- The Sheriff Should Review Health Insurance Billings To Ensure Proper Premiums Are Paid On Appropriate Employees
- The Sheriff Should Strengthen Internal Controls Over Employee Time Recordkeeping

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable conditions described above are material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Not Have A Deficit In His Official Bank Account For 2005 Fees
- The Sheriff Should Prepare And Submit Quarterly Financial Reports To The Kentucky Governor's Office For Local Development On A Timely Basis
- The Sheriff Should Maintain Proper Documentation For All Expenditures And Avoid Paying Late Fees And Interest From His Official Fee Account
- The Sheriff's Office Should Reimburse The Fiscal Court For Funds Received For Employer's Share Of Retirement
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Maintain Time Records On All Employees
- The Sheriff Should Eliminate 2004 Fee Account Deficit of \$39,684 And Pay \$39,684 Due The Fiscal Court For 2004 Excess Fees
- The Sheriff Should Eliminate 2003 Fee Account Deficit of \$11,100 And Pay \$11,100 Due The Fiscal Court For 2003 Excess Fees

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 30, 2006

